

Wendt (India) Limited

September 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working Capital facilities	2.00	2.00	[ICRA]AA- (Stable); Reaffirmed
Non-fund Based	6.00	6.00	[ICRA]A1+; Reaffirmed
Total	8.00	8.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating outstanding on the Rs.2.0 crore fund-based facilities of Wendt (India) Limited (Wendt /the company) ¹ at [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long-term rating is stable. ICRA has also re-affirmed the [ICRA]A1+ (pronounced as ICRA A one plus) rating outstanding on the Rs.6.00 crore non-fund-based facilities of Wendt (India) Limited.

Rationale

The ratings reaffirmation continues to factor in Wendt's strong parentage by virtue of being part of the Murugappa group, its established position in the Indian super- abrasive industry, diversified customer base and business mix lending operational flexibility. The ratings also factor in healthy financial profile of the company reflected by nil gearing as on March 31, 2018, comfortable coverage indicators, stable working capital cycle and healthy liquidity profile supported by cash & liquid investments and unutilised cash credit facilities. ICRA also notes the company efforts towards increasing its export revenues (which grew by 27.7% in FY2018) are likely to support the company's business prospects going forward. ICRA expects exports to outgrow the domestic business over the medium to long term, thereby supporting the revenue growth of the company.

The ratings strengths are partially offset by weak stagnant revenue growth during FY2018 on account of shrinkage in demand in some of the end customer industries and roll out of GST by GOI during H1 FY2018. The ratings also consider Wendt's moderately high exposure to the domestic automotive industry (~35% of revenues during FY2018) and the risks associated with the inherent cyclicity, susceptibility of its margins to input price fluctuations and dependence on imports for certain key raw materials. ICRA also takes note of the uncertainty pertaining to the ownership structure of the company with disagreement on valuations between the promoter Groups (Murugappa and 3M) persisting. Going forward, the company's ability to increase its revenues and profitability and maintaining its strong capital structure would be key rating sensitivities.

¹ For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications

Outlook: Stable

ICRA believes Wendt (India) Limited will continue to benefit from the strong parentage support from Murugappa group which has diversified presence across industries. The outlook may be revised to Positive if there is significant improvement in financial profile of the company supported by healthy growth in revenue and profitability. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Strong parentage being part of Murugappa Group – Murugappa group which has its presence across industries holds 39.87% stake in the company. Strong operational, financial and management support acts as a key differentiating factor for Wendt.

Leading player in the domestic super abrasive segment – Wendt is one of the leading players in the domestic super abrasive industry in India in FY2018. The company has been able to maintain a healthy market position in the super abrasive industry on the back of its high-quality products and strong technical capabilities.

Wide customer base supports business growth - The company has highly reputed customer base across industries which supports its revenues. Can mention customer concentration somewhere Wendt has developed established relationships with its customers which continue to support the company's business prospects. The company's revenues are well diversified with little dependence on any single customer.

Strong capital structure and coverage indicators - Wendt's capital structure and coverage indicators remain supported by lower dependence on external debt and healthy profitability. Liquidity position is comfortable with cash balances of Rs. 12.2 crore and liquid investment of Rs. 22.5 crore. Wendt has nil gearing, interest coverage ratio and TOL/TNW of 30.4x and 0.3x respectively as on March 31, 2018. The company is planning to add capacities under certain product categories during FY2019; however, Wendt is unlikely to avail any significant borrowings and plans to fund entirely through its internal accruals.

Credit challenges

Top line remained flat during FY2018 – The operating income of the company stood at Rs. 147.0 crore in FY2018 as against Rs. 146.4 crore in FY2017, reflecting muted revenue growth. The revenue of the company was impacted on account of slow-down in demand from automotive and other user industries in addition to roll out of GST by GOI in H1FY2018 resulting in reduced order flow for the company; however, healthy growth in exports supported the revenues of the company during FY2018

Exposure to automotive sector – While the company has presence across various industries, namely defence, general engineering, cutting tools, steel etc., ~35% of the FY2018 sales of the company was accounted for by the automotive sector. While any demand slowdown in the automotive sector can adversely impact the revenues of the company, as witnessed in the past, the company's foray across the engineering, cutting tools, ceramics, steel, defence etc., mitigates the risk to a large extent.

High competitive intensity - The domestic abrasives industry is highly fragmented with presence of large number of players. Despite its strong market position, Wendt faces intense competition from several industry majors, thereby affecting the ability to acquire new customers.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Components Manufacturer](#)

About the company:

Established in 1980, Wendt (India) Ltd (Wendt / the company) was originally promoted by Mr S. C. Khatau and Wendt GmbH of Germany. The company started its operations by setting-up a super abrasives manufacturing facility at Hosur (Tamil Nadu) to manufacture grinding wheels and tools with technological support from its German parent, Wendt GmbH.

In 1991, Carborundum Universal Limited ('CUMI', a Murugappa Group company, a leading conventional abrasives player in India, acquired 30% in the company from Mr S. C. Khatau and subsequently an additional ~10% from the open market to expand its presence in the super-abrasives segment. Thus, presently, the company is jointly held by CUMI and Wendt GmbH, with each holding 39.87% stake in the company. In 2007, Winterthur Technologies AG (Switzerland), acquired Wendt GmbH and thus holds an indirect stake of 39.87% in the company. Later in December 2010, 3M acquired Winterthur Technologies AG in a deal valued at USD 448 million (presently 3M holds 98.5% in Winterthur Technologies AG) thereby getting an indirect stake in WIL.

In FY2018, on an audited basis, the company reported a net profit of Rs. 13.0 crore on an operating income of Rs. 147.0 crore, as compared to a net profit of Rs. 12.1 crore on an operating income of Rs. 146.4 crore in the FY2017.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	146.4	147.0
PAT (Rs. crore)	12.1	13.0
OPBDIT/OI (%)	17.9%	18.7%
RoCE (%)	15.8%	15.7%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	35.4	30.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 May 2015
1	Fund Based – Working Capital Facilities	2.00		[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-Fund Based	6.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based – Working Capital Facilities	-	-	-	2.00	[ICRA]AA- (Stable)
NA	Non-Fund Based	-	-	-	6.00	[ICRA]A1+

Source: company

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